

BUSINESS SITUATION

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REAL gross domestic product (GDP) increased 5.4 percent in the first quarter of 2000, according to the "preliminary" estimates of the national income and product accounts (NIPA's), after increasing 7.3 percent in the fourth quarter of 1999 (table 1 and chart 1); the "advance" first-quarter estimate of real GDP, reported in the May "Business Situation," also had shown a 5.4-percent increase.¹ Among the major components, upward revisions to exports of goods and

services and to nonresidential fixed investment were mostly offset by a downward revision to consumer spending and by an upward revision to imports of goods and services.

Real final sales of domestic product and real gross domestic purchases were revised little. The preliminary estimates of the increases in the price indexes for gross domestic purchases and for GDP were the same as the advance estimates.

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years except 1999 and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Sales to Domestic Purchasers

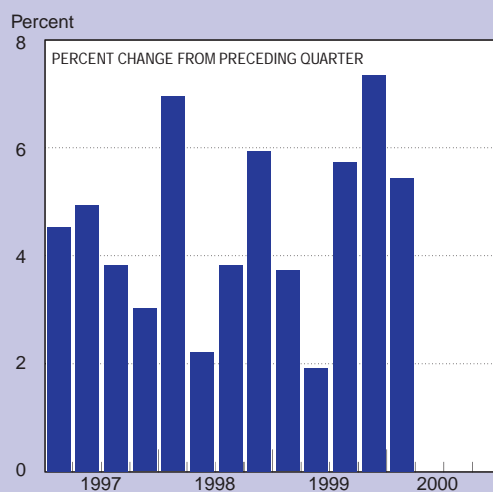
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1999			
		2000				2000			
		I	II	III	IV	I	II	III	IV
Gross domestic product	9,156.7	40.7	121.5	157.4	119.5	1.9	5.7	7.3	5.4
Less: Exports of goods and services	1,092.6	10.0	28.3	25.6	14.4	4.0	11.5	10.1	5.5
Plus: Imports of goods and services	1,465.5	44.5	47.6	29.3	43.2	14.4	14.9	8.7	12.7
Equals: Gross domestic purchases	9,504.0	70.7	138.3	160.8	145.4	3.2	6.2	7.2	6.4
Less: Change in private inventories	30.5	-36.1	24.0	28.7	-36.2	.....	.....	.....	.....
Nonfarm	36.7	-30.0	28.1	31.1	-35.6	.....	.....	.....	.....
Farm	-6.8	-6.5	-4.7	-2.9	-1.1	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	9,463.7	102.8	114.1	132.9	177.7	4.7	5.1	5.9	7.9
Personal consumption expenditures	6,214.3	73.2	71.2	87.2	111.4	5.1	4.9	5.9	7.5
Durable goods	890.6	17.3	15.1	25.5	43.9	9.1	7.7	13.0	22.4
Nondurable goods	1,836.7	14.2	15.6	32.7	24.7	3.3	3.6	7.6	5.6
Services	3,501.8	42.5	41.1	31.3	47.1	5.2	5.0	3.7	5.6
Gross private domestic fixed investment	1,692.5	25.1	26.3	10.5	74.7	6.6	6.8	2.6	19.8
Nonresidential fixed investment	1,315.2	20.2	31.4	8.9	72.0	7.0	10.9	2.9	25.2
Structures	257.6	-3.4	-2.4	-3	11.8	-5.3	-3.8	-5	20.7
Equipment and software	1067.7	25.2	35.7	9.8	61.3	11.2	15.7	4.0	26.6
Residential investment	381.6	5.1	-3.7	1.7	4.8	5.5	-3.8	1.8	5.2
Government consumption expenditures and gross investment	1,564.8	4.9	17.0	34.3	-4.8	1.3	4.5	9.3	-1.2
Federal	535.8	2.9	5.4	18.8	-22.5	2.1	4.1	14.7	-15.1
National defense	340.2	-2.2	9.1	14.1	-22.2	-2.6	11.2	17.2	-22.3
Nondefense	195.4	5.0	-3.6	4.8	-5	10.9	-7.1	10.3	-9
State and local	1028.5	2.2	11.5	15.6	17.4	.9	4.8	6.4	7.0
Addendum: Final sales of domestic product	9,116.3	72.5	97.5	129.6	151.7	3.4	4.5	6.0	6.9

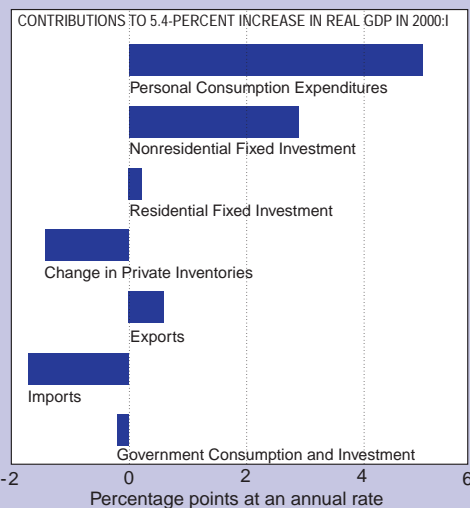
NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "Selected NIPA Tables," which begin on page D-2 in this issue.)

CHART 1

Real Gross Domestic Product



Based on Seasonally Adjusted Annual Rates



U.S. Department of Commerce, Bureau of Economic Analysis

(The sources of the revisions are discussed in the section "Revisions.")

The 5.4-percent increase in the first quarter was the third consecutive increase above 5.0 percent and was well above the 3.7-percent average annual growth rate for real GDP over the current expansion, which began in the second quarter of 1991.

The picture of the economy in the first quarter presented by the preliminary estimates was little changed from that presented by the advance estimates. The preliminary estimates showed the following:

- Real GDP growth decelerated in the first quarter but remained strong. The deceleration was primarily accounted for by downturns in private inventory investment and in government spending, by an acceleration in imports of goods and services, and by a deceleration in exports of goods and services. These changes were partly offset by accelerations in private nonresidential fixed investment and in consumer spending.
- Real final sales of domestic product accelerated, as private inventory investment turned down.² The growth in real final sales of

domestic product was 1.5 percentage points higher than the growth in real GDP in the first quarter and was 1.3 percentage points lower than the growth in GDP in the fourth quarter.

- Real gross domestic purchases decelerated less than real GDP in the first quarter, reflecting an acceleration in imports of goods and services, which are subtracted in the calculation of GDP but not in the calculation of gross domestic purchases, and a deceleration in exports of goods and services, which are added in the calculation of GDP but not in the calculation of gross domestic purchases.³
- The largest contributors to the first-quarter increase in real GDP were consumer spending and business investment in equipment and software (table 2 and chart 1). The increase in GDP was moderated by an increase in imports and by decreases in private inventory investment and in Federal Government spending.

The price index for gross domestic purchases increased 3.2 percent in the first quarter after

2. Final sales of domestic product is calculated as GDP less change in private inventories.

3. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment.

Table 2.—Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	1999			2000
	II	III	IV	I
Percent change at annual rate:				
Gross domestic product	1.9	5.7	7.3	5.4
Percentage points at annual rates:				
Personal consumption expenditures	3.36	3.33	4.07	5.02
Durable goods .....	.71	.62	1.03	1.70
Nondurable goods .....	.64	.73	1.51	1.12
Services	2.00	1.98	1.53	2.20
Gross private domestic investment	-.36	2.26	1.72	1.70
Fixed investment	1.10	1.16	.48	3.13
Nonresidential .....	.86	1.33	.39	2.90
Structures	-.16	-.11	-.01	.56
Equipment and software	1.02	1.44	.40	2.35
Residential .....	.24	-.17	0.09	.23
Change in private inventories	-1.46	1.09	1.24	-1.43
Net exports of goods and services	-1.35	-.73	-.12	-1.12
Exports .....	.42	1.19	1.08	.60
Goods .....	.32	1.19	.83	.52
Services .....	.10	0	.24	.08
Imports	-1.77	-1.92	-1.20	-1.72
Goods	-1.59	-1.84	-1.12	-1.54
Services	-.19	-.08	-.08	-.18
Government consumption expenditures and gross investment .....	.23	.81	1.61	-.20
Federal .....	.13	.26	.87	-1.00
National defense	-.10	.42	.65	-.99
Nondefense .....	.23	-.16	.22	-.02
State and local .....	.10	.55	.75	.80

NOTE.—More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

Table 3.—Percent Changes in Prices

[Annual rates; based on seasonally adjusted index numbers (1996=100)]

	1999			2000
	II	III	IV	I
Gross domestic product	1.3	1.1	2.0	2.7
Less: Exports of goods and services .....	.7	1.3	2.6	2.1
Plus: Imports of goods and services	5.2	6.2	4.9	5.9
Equals: Gross domestic purchases	1.9	1.7	2.3	3.2
Less: Change in private inventories				
Equals: Final sales to domestic purchasers	2.0	1.8	2.3	3.2
Personal consumption expenditures	2.2	1.8	2.5	3.1
Food	1.2	2.1	2.3	2.4
Energy goods and services ¹	26.9	14.2	12.0	34.7
Other personal consumption expenditures	1.3	1.2	2.0	1.8
Private nonresidential fixed investment	-1.4	-1.3	0	.1
Structures	2.2	3.4	3.5	4.0
Equipment and software	-2.5	-2.7	-1.1	-1.0
Private residential investment	3.6	4.1	2.2	3.9
Government consumption expenditures and gross investment	2.9	3.3	3.4	5.8
Federal .....	.9	1.8	2.7	7.3
National defense	1.0	1.8	2.5	6.4
Nondefense .....	.7	1.8	3.1	9.0
State and local	4.0	4.2	3.8	5.0
Addendum: Gross domestic purchases less food and energy	1.2	1.2	1.9	2.1

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

NOTE.—Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

increasing 2.3 percent in the fourth (table 3). The step-up was primarily accounted for by an acceleration in the prices of personal consumption expenditures, mainly in the prices of energy, and by an acceleration in the prices of government consumption expenditures, mainly as a result of a Federal pay raise in the first quarter. Food prices increased at the same rate in both quarters. The price index for gross domestic purchases excluding food and energy prices, which are usually more volatile than many other prices, increased 2.1 percent after increasing 1.9 percent; if the effect of the Federal pay raise is also excluded, the measure increased 1.7 percent after increasing 1.9 percent.

GDP prices increased 2.7 percent in the first quarter after increasing 2.0 percent in the fourth. The smaller first-quarter increase in GDP prices than in gross domestic purchases prices reflected a smaller increase in export prices than in import prices.

Real disposable personal income (DPI) increased 2.2 percent in the first quarter after increasing 4.7 percent in the fourth. The personal saving rate—personal saving as a percentage of current-dollar DPI—continued its downtrend, decreasing to 0.6 percent from 1.8 percent in the fourth quarter; the first-quarter rate is the lowest since 1946, the first year for which quarterly estimates are available. The national saving rate—gross saving as a percentage of gross national

CHART 2

Real Personal Consumption Expenditures

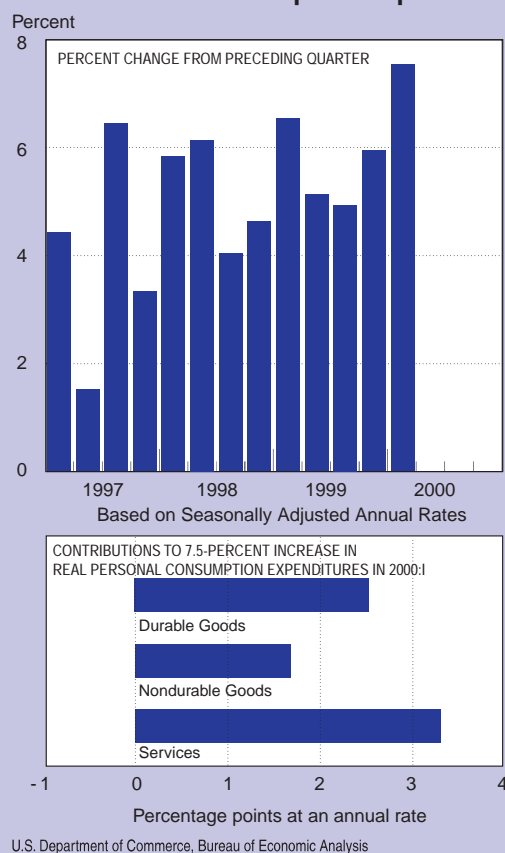


Table 4.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	2000	Change from preceding quarter				1999			2000
		I	II	III	IV	I	II	III	IV
Personal consumption expenditures	6,214.3	73.2	71.2	87.2	111.4	5.1	4.9	5.9	7.5
Durable goods	890.6	17.3	15.1	25.5	43.9	9.1	7.7	13.0	22.4
Motor vehicles and parts	346.2	6.8	2.4	6.1	20.5	9.2	3.0	7.9	27.7
Of which: New autos	113.3	5.6	-8	7.0	4.9	25.5	-3.2	30.9	19.4
New light trucks	100.8	1.3	2.3	.2	11.7	6.0	11.0	1.2	63.6
Furniture and household equipment	375.1	8.8	10.5	13.4	15.7	11.3	13.0	16.5	18.6
Other	171.4	1.8	2.9	6.5	7.3	4.8	8.0	17.4	18.9
Nondurable goods	1,836.7	14.2	15.6	32.7	24.7	3.3	3.6	7.6	5.6
Food	878.1	5.1	5.4	23.1	5.0	2.4	2.6	11.3	2.3
Clothing and shoes	332.8	2.1	4.8	-3.5	14.7	2.7	6.2	-4.3	19.9
Gasoline, fuel oil, and other energy goods	142.1	1.0	.6	1.5	-3.9	2.8	1.8	4.3	-10.3
Other	484.3	6.0	4.9	10.6	10.2	5.4	4.3	9.5	8.9
Services	3,501.8	42.5	41.1	31.3	47.1	5.2	5.0	3.7	5.6
Housing	839.3	4.7	5.4	5.6	5.2	2.3	2.7	2.7	2.5
Household operation	366.5	4.8	5.6	-3.4	5.5	5.6	6.4	-3.7	6.2
Electricity and gas	132.9	1.1	3.2	-5.2	2.7	3.5	9.9	-14.4	8.5
Other household operation	233.3	3.6	2.5	1.6	2.8	6.7	4.4	2.9	4.9
Transportation	245.5	2.2	2.5	1.5	1.6	3.6	4.2	2.6	2.7
Medical care	896.7	6.4	8.9	8.2	7.6	3.0	4.2	3.8	3.5
Recreation	243.2	6.6	7.4	3.9	6.9	12.7	13.8	6.9	12.2
Other	909.7	17.8	11.5	14.8	20.3	8.7	5.4	7.0	9.5

NOTE.—See note to table 1 for an explanation of chained (1996) dollar levels and residuals are shown in NIPA tables 2.3 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

product—decreased to 18.2 percent in the first quarter from 18.3 percent in the fourth.

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 7.5 percent in the first quarter after increasing 5.9 percent in the fourth (table 4 and chart 2). The first-quarter increase was the ninth consecutive increase above 3.8 percent, the average annual growth rate of PCE over the current expansion. The first-quarter step-up was accounted for by accelerations in expenditures for durable goods and for services; expenditures for nondurable goods increased less in the first quarter than in the fourth.

The step-up in PCE was consistent with movements in some of the factors considered in analyses of PCE (chart 3). The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center as a measure of consumer attitudes and expectations) increased to a record level in the first quarter, and the unemployment rate remained at 4.1 percent, its lowest

level in 30 years. In contrast, real DPI increased 2.2 percent after increasing 4.7 percent.

Expenditures for durable goods jumped 22.4 percent in the first quarter after increasing 13.0 percent in the fourth. The step-up was largely accounted for by an acceleration in motor vehicles and parts, mostly in trucks and recreational vehicles. Furniture and household equipment and "other" durable goods increased a little more in the first quarter than in the fourth.⁴

Expenditures for services increased 5.6 percent after increasing 3.7 percent. The step-up was accounted for by an upturn in household operations—primarily in electricity and gas—and by accelerations in "other" services and in recreation.⁵ Transportation increased about the same in each quarter, and medical care and housing each increased slightly less in the first quarter than in the fourth.

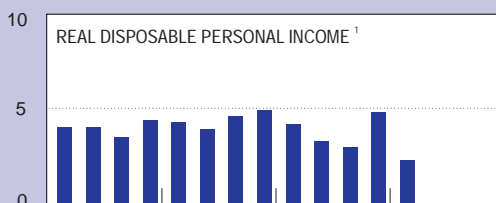
4. "Other" durable goods includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns, and sporting equipment, photographic equipment, boats, and pleasure aircraft.

5. "Other" services includes personal care, personal business, net foreign travel, education and research, and religious and welfare activities.

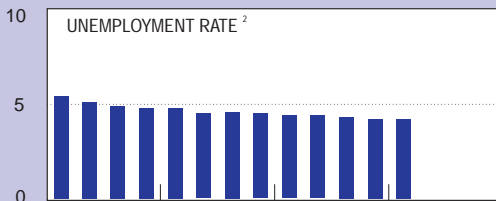
CHART 3

Selected Factors Affecting Consumer Spending

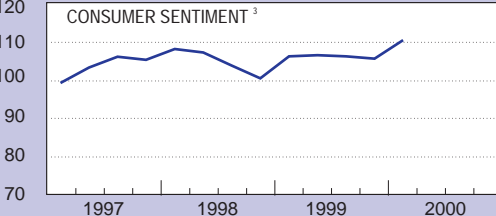
Percent change



Percent



Index



1. Based on seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted. Data: U.S. Department of Labor, Bureau of Labor Statistics

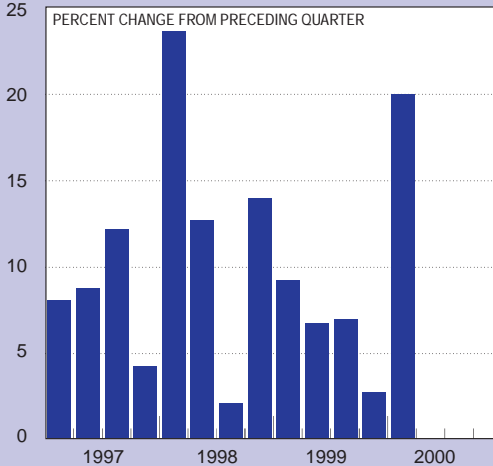
3. Data: University of Michigan's Survey Research Center

U.S. Department of Commerce, Bureau of Economic Analysis

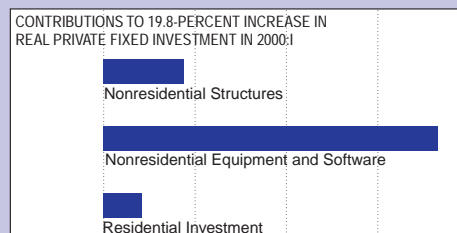
CHART 4

Real Private Fixed Investment

Percent



Based on Seasonally Adjusted Annual Rates



Percentage points at an annual rate

U.S. Department of Commerce, Bureau of Economic Analysis

Expenditures for nondurable goods increased 5.6 percent after increasing 7.6 percent. The slowdown was more than accounted for by a deceleration in food and by a downturn in gasoline, fuel oil, and other energy goods. "Other" nondurable goods increased about the same in each quarter, and clothing and shoes turned up.⁶

Private fixed investment

Real private fixed investment jumped 19.8 percent in the first quarter after increasing 2.6 percent in the fourth (table 5 and [chart 4](#)). Both nonresidential fixed investment and residential investment accelerated.

Nonresidential fixed investment.—Real private nonresidential fixed investment jumped 25.2 percent in the first quarter after increasing 2.9 percent in the fourth. Equipment and software accelerated sharply, and structures turned up.

Over the past four quarters, nonresidential fixed investment increased 11.2 percent, somewhat more than the 8.8-percent average annual increase over the current expansion. Many of the factors that affect investment spending showed strength over the past four quarters: Real final sales of domestic product increased 5.2 percent; domestic corporate profits increased 9.3 percent;

and the capacity utilization rate increased to 81.5 percent from 80.4 percent ([chart 5](#)). In contrast, long-term interest rates increased; for example, the yield on high-grade corporate bonds increased to 7.65 percent in the first quarter of 2000 from 6.33 percent in the first quarter of 1999.

Investment in equipment and software jumped 26.6 percent in the first quarter after increasing 4.0 percent in the fourth. The step-up was largely accounted for by an acceleration in information processing equipment and software and an upturn in transportation equipment, but an upturn in "other" equipment and a small acceleration in industrial equipment also contributed.⁷ The acceleration in information processing equipment was widespread but was largest in communication equipment and in computers and peripheral equipment. The upturn in transportation equipment was also widespread.

Investment in nonresidential structures jumped 20.7 percent after edging down 0.5 percent. The upturn was largely accounted for by upturns in nonresidential buildings and in utilities.

Residential investment.—Real private residential investment increased 5.2 percent in the first quar-

6. "Other" nondurable goods includes tobacco, toilet articles, drug preparations and sundries, stationary and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

7. "Other" equipment includes construction and agricultural machinery, mining and oilfield machinery, electrical equipment not included in other categories, furniture and fixtures, and service-industry machinery.

Table 5.—Real Private Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1999			2000
	2000	1999			2000				
	I	II	III	IV	I	II	III	IV	I
Private fixed investment	1,692.5	25.1	26.3	10.5	74.7	6.6	6.8	2.6	19.8
Nonresidential	1,315.2	20.2	31.4	8.9	72.0	7.0	10.9	2.9	25.2
Structures	257.6	-3.4	-2.4	-3	11.8	-5.3	-3.8	-5	20.7
Nonresidential buildings, including farm	185.4	-5.4	-4.0	-7	8.9	-11.1	-8.4	-1.6	21.8
Utilities	39.5	-1	.5	-5	1.5	-1.5	5.3	-5.1	17.2
Mining exploration, shafts, and wells	26.3	1.0	1.7	1.0	1.0	19.5	35.6	16.2	17.9
Other structures	6.5	1.1	-8	-1	.3	100.1	-38.2	-5.7	20.7
Equipment and software	1,067.7	25.2	35.7	9.8	61.3	11.2	15.7	4.0	26.6
Information processing equipment and software	582.9	30.6	25.0	15.7	41.2	28.6	21.6	12.4	34.0
Computers and peripheral equipment ¹	266.0	19.5	20.6	9.8	22.7	46.9	44.5	17.9	42.9
Software ²	163.7	5.4	5.0	4.6	7.1	16.1	14.3	12.6	19.2
Other	195.2	10.6	6.3	3.9	16.6	29.9	15.7	9.2	42.9
Industrial equipment	160.0	1.6	3.4	4.3	5.7	4.3	9.8	11.9	15.6
Transportation equipment	208.0	.8	12.4	-7.6	11.6	1.6	28.7	-14.1	25.9
Of which: Motor vehicles	167.5	3.7	14.0	-6.9	4.4	10.3	41.0	-15.4	11.4
Other	135.6	-3.7	-3.2	-2	5.7	-10.4	-9.2	-5	18.5
Residential	381.6	5.1	-3.7	1.7	4.8	5.5	-3.8	1.8	5.2
Single-family structures	205.0	0	-4.1	4.8	8.5	-1	-8.0	10.5	18.5
Multifamily structures	23.8	-4	0	-3	1.2	-6.5	-8	-4.0	22.7
Other ³	152.6	5.6	.5	-3.0	-5.1	15.4	1.2	-7.3	-12.3

1. Includes new computers and peripheral equipment only.

2. Excludes software "embedded," or bundled, in computers and other equipment.

3. "Other" residential investment includes home improvements, new manufactured home sales, brokers' commissions on home sales, residential equipment, net purchases of used structures, and other residential structures (which consists primarily of dormitories and of fraternity and soror-

ity houses).

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.5 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

ter after increasing 1.8 percent in the fourth (table 5). The acceleration was largely accounted for by an acceleration in single-family structures, but an upturn in multifamily structures also contributed. "Other" residential investment decreased more than in the fourth quarter.⁸

Investment in single-family structures increased 18.5 percent after increasing 10.5 percent, and investment in multifamily structures increased 22.7 percent after decreasing 4.0 percent. "Other" residential investment decreased 12.3 percent after decreasing 7.3 percent; the larger first-quarter decrease was mainly attribut-

8. "Other" residential investment includes home improvements, new manufactured home sales, brokers' commissions on home sales, residential equipment, and other residential structures (which consists primarily of dormitories, fraternity and sorority houses).

able to brokers' commissions on home sales. These commissions decreased more in the first quarter than in the fourth, primarily reflecting a larger first-quarter decrease in sales of existing homes. The commitment rate on 30-year, fixed-rate mortgages increased to 8.3 percent from 7.8 percent; the rate has increased 1.5 percentage points since the recent low in the fourth quarter of 1998.

Inventory investment

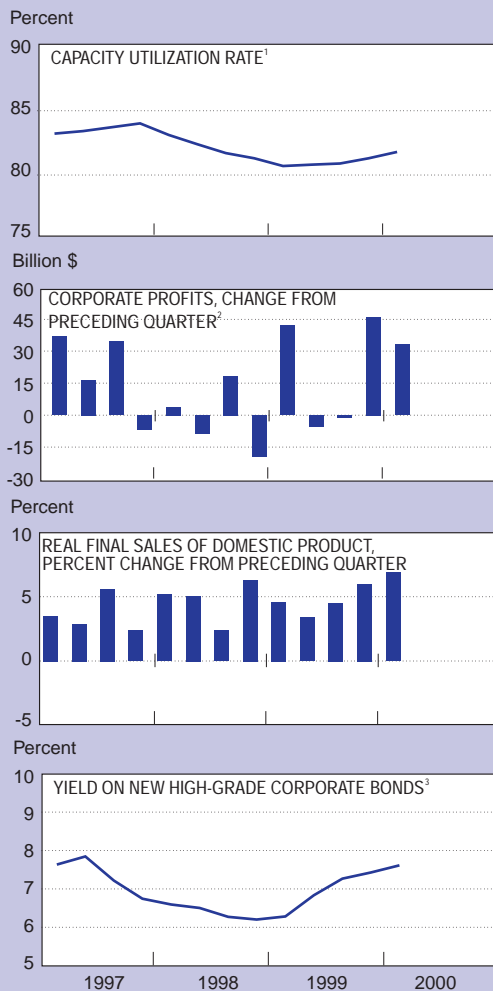
Real inventory investment—that is, the change in private inventories—decreased \$36.2 billion in the first quarter, as inventory accumulation slowed to \$30.5 billion from \$66.7 billion; inventory investment had increased \$28.7 billion in the fourth quarter (table 6 and chart 6).

The first-quarter decrease in inventory investment was more than accounted for by a \$46.1 billion drop in investment at the retail level, as the stock of retail inventories decreased \$1.7 billion after increasing \$44.4 billion. Inventories of durable-goods retailers decreased \$2.0 billion after increasing \$29.1 billion; about two-thirds of the swing was accounted for by inventories of motor vehicle dealers. Inventories of nondurable-goods retailers increased \$0.3 billion after increasing \$15.6 billion.

In contrast, investment at the wholesale level increased, as the stock of wholesale inventories increased \$21.4 billion after increasing \$15.0 billion. Inventories of nonmerchant wholesalers

CHART 5

Selected Factors Affecting Nonresidential Investment



1. All industries. Data: Federal Reserve Board

2. Domestic industries.

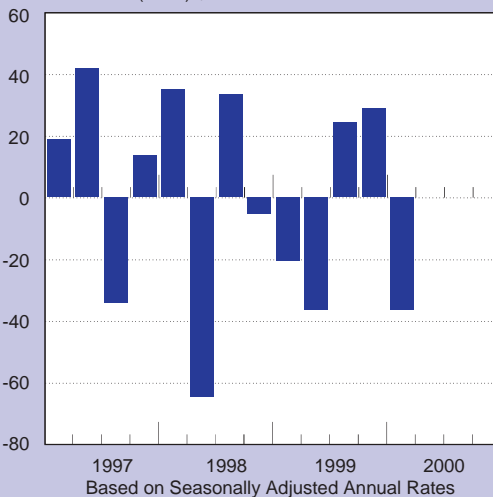
3. Data: U.S. Treasury Department

U.S. Department of Commerce, Bureau of Economic Analysis

CHART 6

Real Private Inventory Investment: Change from Preceding Quarter

Billion chained (1996) \$



U.S. Department of Commerce, Bureau of Economic Analysis

increased \$4.7 billion after decreasing \$1.2 billion; the upturn was largely accounted for by durable goods—mainly motor vehicles, professional and commercial equipment, and machinery equipment—but nondurable goods also turned up. Inventories of merchant wholesalers increased \$16.7 billion after increasing \$16.2 billion; an upturn in inventories of nondurable goods—primarily farm products—more than offset a slowdown in inventories of durable goods, mainly of professional and commercial equipment and of electrical goods.

Investment in manufacturing inventories also increased, as inventories increased \$12.8 billion after increasing \$8.2 billion. Inventories of durable-goods manufacturers increased \$8.6 billion after increasing \$3.0 billion. Inventories of transportation equipment increased after decreasing; the upturn was mainly in aircraft inventories. In contrast, inventories of electronic machinery slowed. Inventories of nondurable-goods manufacturers increased \$4.2 billion after increasing \$5.1 billion. Food inventories increased less than in the fourth quarter, and chemical inventories

Table 6.—Real Change in Private Inventories

[Billions of chained (1996) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1999				2000	1999			2000
	I	II	III	IV	I	II	III	IV	I
Change in private inventories	50.1	14.0	38.0	66.7	30.5	-36.1	24.0	28.7	-36.2
Farm	7.4	.9	-3.8	-6.7	-6.8	-6.5	-4.7	-2.9	-1
Nonfarm	43.1	13.1	41.2	72.3	36.7	-30.0	28.1	31.1	-35.6
Manufacturing	0	-8.3	1.7	8.2	12.8	-8.3	10.0	6.5	4.6
Durable goods	1.8	-6.6	1.8	3.0	8.6	-8.4	8.4	1.2	5.6
Nondurable goods	-1.8	-1.7	0	5.1	4.2	.1	1.7	5.1	-9
Wholesale trade	9.5	11.1	25.1	15.0	21.4	1.6	14.0	-10.1	6.4
Durable goods	11.8	11.0	11.1	17.3	16.4	-8	.1	6.2	-9
Nondurable goods	-2.4	.1	14.0	-2.2	5.1	2.5	13.9	-16.2	7.3
Retail trade	17.5	5.9	14.1	44.4	-1.7	-11.6	8.2	30.3	-46.1
Durable goods	9.5	4.0	11.8	29.1	-2.0	-5.5	7.8	17.3	-31.1
Of which: Motor vehicle dealers	3.1	0	9.3	15.3	-4.6	-3.1	9.3	6.0	-19.9
Nondurable goods	8.0	1.9	2.5	15.6	.3	-6.1	.6	13.1	-15.3
Other	15.7	4.1	.1	3.6	4.6	-11.6	-4.0	3.5	1.0
Durable goods	1.7	-2.0	-1.0	1.1	1.0	-3.7	1.0	2.1	-1
Nondurable goods	14.0	6.3	1.1	2.4	3.6	-7.7	-5.2	1.3	1.2
Addenda:									
Motor vehicles	6.4	2.5	13.3	18.0	-2.2	-3.9	10.8	4.7	-20.2
Autos	1.7	-7.9	3.3	7.7	3.9	-9.6	11.2	4.4	-3.8
Trucks	4.5	9.2	9.4	9.9	-5.4	4.7	.2	.5	-15.3

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.11 and 8.9B (motor vehicles).

Table 7.—Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level				Change from preceding quarter	1999			2000
	2000				1999	1999			2000
	I	II	III	IV	I	II	III	IV	I
Exports of goods and services	1,092.6	10.0	28.3	25.6	14.4	4.0	11.5	10.1	5.5
Exports of goods ¹	796.8	7.7	29.2	20.4	13.1	4.3	16.9	11.1	6.8
Foods, feeds, and beverages	59.4	3.2	3.0	-.3	.6	25.9	23.3	-1.6	4.1
Industrial supplies and materials	162.2	3.0	2.6	9.4	.1	8.5	6.9	27.2	.3
Capital goods, except automotive	363.0	-1.2	23.7	4.6	6.3	-1.5	32.1	5.3	7.3
Automotive vehicles, engines, and parts	79.0	3.5	.8	.5	3.7	21.3	4.3	3.0	21.2
Consumer goods, except automotive	86.9	-.4	1.4	2.9	3.7	-2.3	7.4	15.3	19.0
Other	46.4	-.1	-1.5	2.8	-1.7	-.6	-12.2	26.4	-13.0
Exports of services ¹	297.2	2.2	.1	5.3	1.7	3.2	0	7.6	2.2
Imports of goods and services	1,465.5	44.5	47.6	29.3	43.2	14.4	14.9	8.7	12.7
Imports of goods ¹	1,256.0	40.5	46.4	27.9	39.2	15.5	17.3	9.7	13.5
Foods, feeds, and beverages	47.0	2.3	1.2	.4	-.6	22.9	10.7	2.9	-4.6
Industrial supplies and materials, except petroleum and products	167.2	3.4	4.5	5.7	2.5	9.3	12.1	15.1	6.3
Petroleum and products	82.2	4.7	-2.6	-6.1	5.6	25.5	-11.6	-26.3	32.9
Capital goods, except automotive	420.5	23.0	19.5	16.9	13.6	29.2	22.8	18.4	14.1
Automotive vehicles, engines, and parts	194.4	3.0	10.7	1.1	9.2	7.1	27.1	2.4	21.5
Consumer goods, except automotive	272.1	5.1	10.8	11.5	9.0	8.9	19.2	19.6	14.4
Other	74.1	1.5	2.1	.8	-1.0	8.4	12.7	4.2	-5.1
Imports of services ¹	211.4	4.3	1.8	1.7	4.2	8.9	3.6	3.4	8.3

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 4.4. Percent changes in major aggregates are shown in NIPA table S.1.

decreased slightly after increasing. In contrast, inventories of petroleum products and inventories of paper and allied products turned up.

"Other" nonfarm inventories increased \$4.6 billion after increasing \$3.6 billion.⁹

Farm inventories decreased \$6.8 billion, about the same as in the fourth quarter. Crop inventories accounted for most of the decrease in both quarters.

In the first quarter, the ratio of real private nonfarm inventories to real final sales of domestic businesses decreased to 2.06 from 2.09; the inventory-sales ratio that includes only final sales of goods and structures decreased to 3.62 from 3.70

9. "Other" nonfarm inventories includes inventories held by establishments in the following industries: Mining; construction; public utilities; transportation; communication; finance, insurance, and real estate; and services.

(see NIPA table 5.13).¹⁰ Both series were at their lowest levels since 1966.

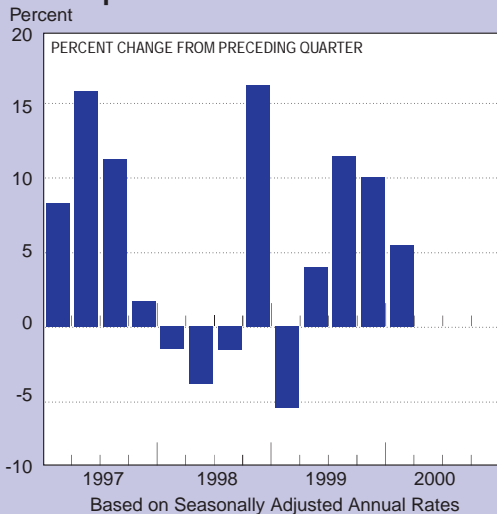
Exports and imports

Real exports of goods and services increased 5.5 percent in the first quarter after increasing 10.1 percent in the fourth; exports of both goods and services decelerated (table 7). Real imports of goods and services increased 12.7 percent after increasing 8.7 percent; imports of both goods and services accelerated.

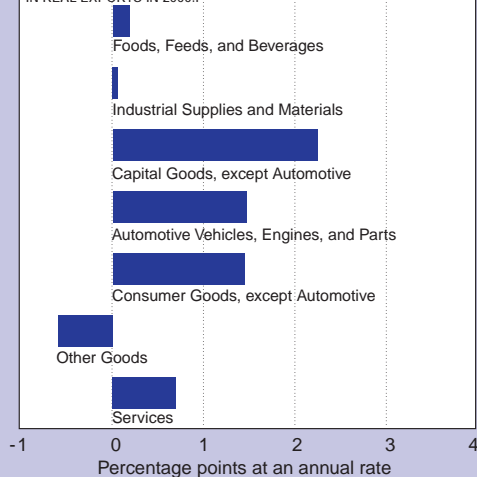
10. Use of the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, use of the "goods and structures" ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. Production of some services may require substantial inventories, while production of other services may not.

CHART 7

Real Exports



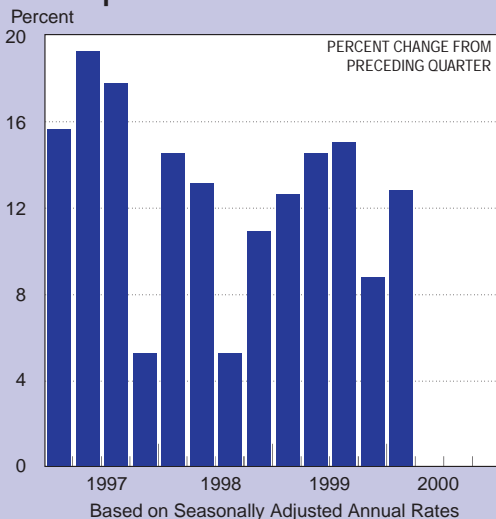
CONTRIBUTIONS TO 5.5-PERCENT INCREASE IN REAL EXPORTS IN 2000:1



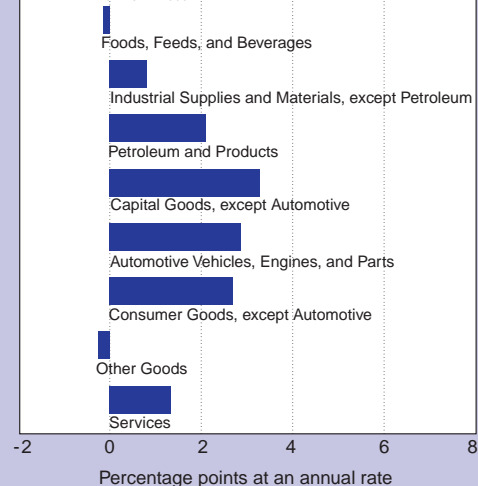
U.S. Department of Commerce, Bureau of Economic Analysis

CHART 8

Real Imports



CONTRIBUTIONS TO 12.7-PERCENT INCREASE IN REAL IMPORTS IN 2000:1



U.S. Department of Commerce, Bureau of Economic Analysis

Exports of goods increased 6.8 percent after increasing 11.1 percent (chart 7). The deceleration was more than accounted for by a sharp slowdown in industrial supplies and materials and by a downturn in "other" goods. Automotive vehicles, engines, and parts and nonautomotive capital goods accelerated.

Exports of services increased 2.2 percent after increasing 7.6 percent. The slowdown was largely accounted for by a downturn in "other transportation" and by a deceleration in travel. In contrast, "other private services" accelerated.¹¹

Imports of goods increased 13.5 percent after increasing 9.7 percent (chart 8). The step-up was more than accounted for by an upturn in petroleum and products and by an acceleration in automotive vehicles, engines, and parts. Nonpetroleum industrial supplies and materials, nonautomotive capital goods, and nonautomotive consumer goods each decelerated.

Imports of services increased 8.3 percent after increasing 3.4 percent. The step-up was largely accounted for by upturns in "other private services," direct defense expenditures, and "other transportation."¹² In contrast, passenger fares decelerated.

Government spending

Real government consumption expenditures and gross investment decreased 1.2 percent in the first quarter after increasing 9.3 percent in the fourth (table 8 and chart 9). A downturn in Federal Government spending more than offset a slight acceleration in State and local government spending.

11. Exports of other private services includes education; financial; telecommunications; insurance; and business, professional, and technical.

12. Imports of other private services includes education; financial; telecommunications; insurance; and business, professional, and technical.

Federal defense spending fell 22.3 percent after jumping 17.2 percent. Consumption spending turned down sharply, largely reflecting a downturn in services other than for compensation of employees and for consumption of fixed capital.

CHART 9

Real Government Consumption and Investment

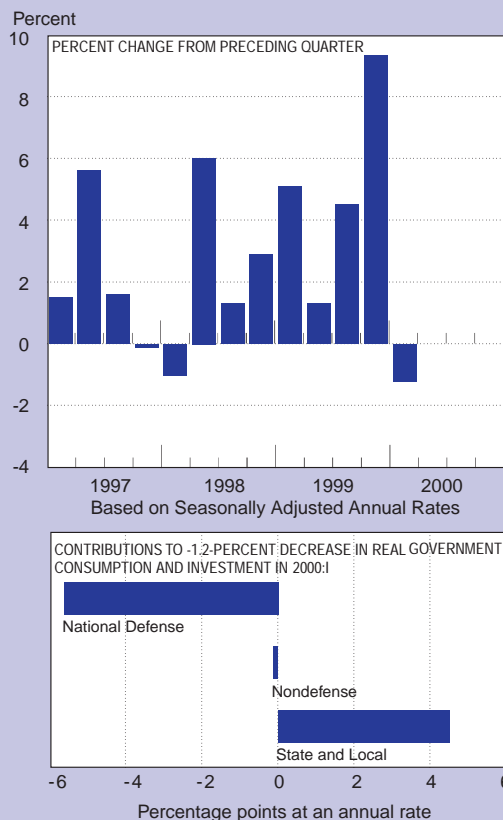


Table 8.—Real Government Consumption Expenditures and Gross Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1999			2000
		2000	1999			2000			
		I	II	III	IV	I	II	III	IV	I
Government consumption expenditures and gross investment ¹	1,564.8	4.9	17.0	34.3	-4.8	1.3	4.5	9.3	-1.2
Federal	535.8	2.9	5.4	18.8	-22.5	2.1	4.1	14.7	-15.1
National defense	340.2	-2.2	9.1	14.1	-22.2	-2.6	11.2	17.2	-22.3
Consumption expenditures	285.4	-4.6	9.1	10.9	-19.5	-6.2	13.4	15.6	-23.2
Gross investment	55.2	2.5	-1	3.3	-2.6	20.7	-8	27.0	-17.3
Nondefense	195.4	5.0	-3.6	4.8	-5	10.9	-7.1	10.3	-9
Consumption expenditures	153.8	1.3	-2.2	2.3	1.8	3.6	-5.8	6.3	5.0
Gross investment	41.9	3.8	-1.3	2.6	-2.6	45.6	-12.0	27.0	-21.1
State and local	1,028.5	2.2	11.5	15.6	17.4	.9	4.8	6.4	7.0
Consumption expenditures	817.4	6.9	7.6	6.9	6.7	3.5	3.9	3.4	3.4
Gross investment	211.6	-4.9	3.9	9.0	10.9	-9.7	8.6	20.2	23.4

1. Gross government investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in government consumption expenditures.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 3.8. Percent changes in major aggregates are shown in NIPA table S.1.

Investment spending also turned down, largely reflecting a downturn in equipment and software; structures decreased slightly after no change.

Federal nondefense spending decreased 0.9 percent after increasing 10.3 percent. Investment spending turned down, largely reflecting a downturn in equipment and software, and consumption spending increased a little less than in the fourth quarter.

State and local government spending increased 7.0 percent after increasing 6.4 percent. The pickup was attributable to investment spending and reflected accelerations both in structures and

in equipment and software; consumption spending increased about the same amount in both quarters.

Revisions

The preliminary estimate of a 5.4-percent increase in real GDP in the first quarter is unchanged from the advance estimate (table 9); for 1978-99, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point.

Among the major components, upward revisions to exports of goods and services and to nonresidential fixed investment were mostly offset by a downward revision to PCE and an upward revision to imports of goods and services.

The upward revision to exports of goods and services was primarily to goods—mainly to non-automotive capital goods and to industrial supplies and materials—and reflected the incorporation of newly available Census Bureau data for March and revised data for February.

The upward revision to nonresidential fixed investment was both to equipment and software and to structures. The upward revision to equipment and software was more than accounted for by transportation equipment, primarily aircraft, and reflected the incorporation of newly available Census Bureau data on aircraft shipments for March. The upward revision to structures was widespread by type of structure and reflected the incorporation of newly available Census Bureau data on value-put-in-place for March and revised data for January and February.

The downward revision to PCE was more than accounted for by durable and nondurable goods. The downward revision to durable goods was to furniture and household equipment and to "other" durable goods, and the downward revision to nondurable goods was mostly to clothing and shoes. These revisions reflected the incorporation of revised Census Bureau data on retail sales, primarily from the 1998 Annual Retail Trade Survey.

The upward revision to imports of goods and services was primarily to goods—mainly to non-automotive consumer goods—and reflected the incorporation of newly available Census Bureau data for March and revised data for February.

The preliminary estimates of the increases in real and current-dollar disposable personal income were 2.2 percent and 5.5 percent, respectively; both estimates were 1.0 percentage point less than the advance estimates. Personal income was revised down slightly, and personal tax and nontax payments was revised up substantially (see

Table 9.—Revisions to Change in Real Gross Domestic Product and Prices, First Quarter 2000

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	5.4	5.4	0	0.1
Less: Exports	-2	5.5	5.7	14.9
Goods	-3	6.8	7.1	13.7
Services .....	.1	2.2	2.1	1.6
Plus: Imports	9.5	12.7	3.2	10.7
Goods	10.1	13.5	3.4	9.6
Services	6.0	8.3	2.3	1.1
Equals: Gross domestic purchases	6.5	6.4	-1	-4.0
Less: Change in private inventories				-6
Farm				1.0
Nonfarm				-1.4
Equals: Final sales to domestic purchasers	8.0	7.9	-1	-3.0
Personal consumption expenditures	8.3	7.5	-8	-10.9
Durable goods	26.6	22.4	-4.2	-7.5
Nondurable goods	6.9	5.6	-1.3	-5.7
Services	5.4	5.6	.2	1.2
Fixed investment	17.3	19.8	2.5	8.8
Nonresidential	21.2	25.2	4.0	10.6
Structures	13.4	20.7	7.3	4.0
Equipment and software	23.7	26.6	2.9	6.3
Residential	6.7	5.2	-1.5	-1.3
Government consumption expenditures and gross investment	-1.1	-1.2	-.1	-.4
Federal	-15.5	-15.1	.4	.6
National defense	-23.2	-22.3	.9	1.0
Nondefense	-2	-9	-7	-4
State and local	7.4	7.0	-.4	-.9
Addenda:				
Final sales of domestic product	6.9	6.9	0	1.1
Gross domestic purchases price index	3.2	3.2	0	.....
GDP price index	2.7	2.7	0	.....

NOTE.—The preliminary estimates for the first quarter of 2000 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Retail sales for October 1999 through and March 2000 (revised, including the incorporation of data from the 1998 Annual Retail Trade Survey on a best-change basis—that is, reflecting the revised change in retail sales from the fourth quarter of 1999 to the first quarter of 2000), consumers' share of new-car purchases for March, average unit value for domestic new autos for March (revised), and consumers' share of new-truck purchases for March.

Nonresidential fixed investment: Construction put-in-place for January and February (revised) and March, manufacturers' shipments of machinery and equipment for February and March (revised), and exports and imports of machinery and equipment for February (revised) and March.

Residential fixed investment: Construction put-in-place for January and February (revised) and March.

Change in private inventories: Manufacturing inventories February (revised) and March, retail and wholesale trade inventories December through February (revised, including the incorporation on a best-change basis of data based on the results of the 1998 Annual Retail Trade Survey and 1998 Annual Trade Survey) and March, and unit inventory data for autos for March (revised).

Exports and imports of goods and services: Exports and imports of goods for February (revised) and March.

Government consumption expenditures and gross investment: Monthly Treasury Statement detailed data for March, Department of Defense detailed financial reports for the first quarter, and State and local government construction put-in-place for January and February (revised) and March.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for February and March (revised).

GDP prices: Detailed merchandise export and import price indexes for January through March (revised), unit-value index for petroleum imports for February (revised) and March, and housing prices for the first quarter.

“Government Sector”). The preliminary estimate of the personal saving rate was 0.6 percent, 0.1 percentage point less than the advance estimate.

Corporate Profits

Profits from current production increased \$34.5 billion (or 3.8 percent at a quarterly rate) in the first quarter, about the same as in the fourth quarter (table 10).¹³ In the first quarter, profits were reduced \$5.5 billion by tobacco company payments related to out-of-court settlements; in the fourth quarter, they had been reduced \$11.2 billion by these payments.

The first-quarter increase in the profits was almost entirely accounted for by profits of domestic nonfinancial corporations, which increased \$32.6 billion (5.2 percent). An increase in the unit profits of these corporations resulted from increased unit prices and unchanged unit costs; the real product of domestic nonfinancial corporations increased 7.3 percent (annual rate). Profits of domestic financial corporations increased \$0.6 billion (0.3 percent). Profits from the rest of the world increased \$1.4 billion (1.4 percent), as

receipts of earnings from foreign affiliates of U.S. corporations increased more than payments by U.S. affiliates of foreign corporations.¹⁴

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$29.9 billion after increasing \$20.9 billion.¹⁵ The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, decreased from 79.8 percent to 77.8 percent (its lowest value since the third quarter of 1990). During 1991-99, the ratio fluctuated between 78.6 percent and 94.0 percent, and it averaged 85.1 percent.

Domestic industry profits and related measures.—Domestic industry profits increased \$34.2 billion after increasing \$44.9 billion.¹⁶ Profits of domestic nonfinancial corporations increased \$32.0 bil-

14. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

15. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

16. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D-16 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

13. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see “Selected NIPA Tables,” which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

Table 10.—Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter				1999			2000
	2000	1999			2000				
	I	II	III	IV	I	II	III	IV	I
Profits from current production	953.9	-6.4	3.6	35.3	34.5	-0.7	0.4	4.0	3.8
Domestic industries	855.0	-5.5	-1.1	45.9	33.1	-7	-1	5.9	4.0
Financial	202.1	-7.8	4.4	19.5	.6	-4.2	2.5	10.7	.3
Nonfinancial	652.9	2.3	-5.5	26.3	32.6	.4	-9	4.4	5.2
Rest of the world	98.9	-1.0	4.8	-10.6	1.4	-9	4.6	-9.8	1.4
Receipts (inflows)	185.2	7.1	5.4	4.5	11.2	4.5	3.3	2.7	6.4
Payments (outflows)	86.3	8.1	.6	15.1	9.8	15.2	1.0	24.6	12.8
IVA	-26.7	-26.9	-13.1	1.8	-1.8	.....	.....	.....	.....
CCAdj	56.9	2.7	-1.2	1.0	-1.1	.....	.....	.....	.....
Profits before tax	923.7	17.7	18.0	32.5	37.4	2.2	2.1	3.8	4.2
Profits tax liability	288.7	6.4	5.0	16.3	13.0	2.6	2.0	6.3	4.7
Profits after tax	635.0	11.3	12.9	16.3	24.4	2.0	2.2	2.7	4.0
Cash flow from current production	979.8	-6.7	12.3	20.9	29.9	-7	1.3	2.2	3.2
Domestic industry profits:									
Corporate profits of domestic industries with IVA	798.1	-8.2	.1	44.9	34.2	-1.1	0	6.2	4.5
Financial	227.1	-7.0	5.6	21.0	2.2	-3.4	2.8	10.3	1.0
Nonfinancial	571.0	-1.3	-5.5	23.9	32.0	-2	-1.1	4.6	5.9
Dollars									
Unit price, costs, and profits of nonfinancial corporations:									
Unit price	1.018	0.003	0	0.002	0.004	.....	.....	.....	.....
Unit labor cost .....	.657	.003	0	-.002	0	.....	.....	.....	.....
Unit nonlabor cost .....	.236	0	-.003	.001	0	.....	.....	.....	.....
Unit profits from current production .....	.125	-.001	-.003	.003	.004	.....	.....	.....	.....

NOTE.—Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA inventory valuation adjustment
CCAdj Capital consumption adjustment

lion after increasing \$23.9 billion. The step-up was accounted for by an upturn in manufacturing profits and a step-up in retail trade profits; in contrast, profits of the transportation and public utilities group, of wholesale trade, and of "other" nonfinancial corporations increased less than in the fourth quarter. Profits of domestic financial corporations increased \$2.2 billion after increasing \$21.0 billion; the large fourth-quarter increase reflected a rebound from the effects of Hurricane Floyd in the third quarter.

Profits before tax (PBT) increased \$37.4 billion after increasing \$32.5 billion. The difference

between the first-quarter increase in PBT and the increase in profits from current production was due to small decreases in the inventory valuation adjustment and in the capital consumption adjustment.¹⁷

Government Sector

The combined current surplus of the Federal Government and of State and local governments—the NIPA measure of net saving by government—increased \$62.1 billion, to \$243.0 billion, in the first quarter after decreasing \$1.8 billion in the fourth (table 11).¹⁸ The upturn was attributable to a turnaround in the Federal Government current surplus. The State and local government current surplus turned down.¹⁹

Table 11.—Government Sector Current Receipts and Expenditures

(Billions of dollars, seasonally adjusted at annual rates)

	Level		Change from preceding quarter				
	2000	1999					2000
		I	II	III	IV	I	
Current receipts	2938.2	36.4	37.8	46.1	72.1	65.6	
Current expenditures	2695.2	4.0	28.4	19.1	73.9	3.5	
Current surplus or deficit(–)	243.0	32.4	9.4	27.0	–1.8	62.1	
Social insurance funds	83.7	5.7	3.7	3.3	2.2	1.8	
Other	159.4	26.7	5.7	23.7	–4.0	60.4	
Federal Government							
Current receipts	1976.8	33.2	26.6	30.0	39.2	54.5	
Personal tax and nontax receipts	949.6	9.8	14.2	15.9	14.7	26.9	
Corporate profits tax accruals	247.9	10.0	5.5	4.3	14.3	11.2	
Indirect business tax and nontax accruals	107.7	–0.1	0.5	1.5	3.5	2.7	
Contributions for social insurance	671.5	13.4	6.4	8.3	6.7	13.6	
Current expenditures	1790.5	–4.6	6.1	14.3	60.9	–19.7	
Consumption expenditures	483.4	7.0	–1.8	9.8	16.9	–8.5	
National defense	310.5	1.2	–3.8	11.3	13.4	–15.0	
Nondefense	172.9	5.9	2.0	–1.5	3.6	6.4	
Transfer payments (net)	773.5	1.3	6.3	5.1	15.3	3.4	
To persons	766.8	13.1	3.9	5.9	6.0	14.4	
To the rest of the world	6.7	–11.9	2.4	–0.7	9.2	–11.0	
Grants-in-aid to State and local governments	234.4	5.7	–4.2	14.9	5.0	–1.2	
Net interest paid	263.9	–8.3	–1.2	–4.9	0.7	3.3	
Subsidies less current surplus of government enterprises	35.3	–10.3	6.9	–10.5	22.8	–16.5	
Subsidies	40.6	–8.4	6.9	–10.3	22.9	–16.4	
Of which: Agricultural subsidies	18.6	–8.0	7.3	–10.1	22.5	–16.7	
Less: Current surplus of government enterprises	5.3	1.8	0.1	0.2	0.1	0.1	
Less: Wage accruals less disbursements	0	0	0	0	0	0	
Current surplus or deficit (–)	186.3	37.9	20.5	15.7	–21.6	74.1	
Social insurance funds	82.4	5.9	3.4	3.3	2.0	1.5	
Other	103.9	32.0	17.1	12.4	–23.6	72.6	
State and local governments							
Current receipts	1195.8	8.9	7.0	31.0	37.9	9.9	
Personal tax and nontax receipts	263.1	2.0	0.4	5.1	8.7	2.0	
Corporate profits tax accruals	40.9	2.3	1.0	0.6	2.1	1.8	
Indirect business tax and nontax accruals	645.6	–1.1	9.7	10.0	21.8	7.0	
Contributions for social insurance	11.9	0	0.2	0.3	0.3	0.4	
Federal grants-in-aid	234.4	5.7	–4.2	14.9	5.0	–1.2	
Current expenditures	1139.1	14.3	18.2	19.7	18.0	22.0	
Consumption expenditures	902.2	10.2	16.0	18.1	15.9	19.8	
Transfer payments to persons	250.3	3.4	1.7	1.7	2.5	2.5	
Net interest paid	–0.4	0.8	0.3	0.1	0	0.2	
Less: Dividends received by government	0.4	0	0	0	0	0.1	
Subsidies less current surplus of government enterprises	–12.6	0	0	–0.1	–0.5	–0.4	
Subsidies	0.5	0	0	0	0	0	
Less: Current surplus of government enterprises	13.1	0	0	0.1	0.5	0.4	
Less: Wage accruals less disbursements	0	0	0	0	0	0	
Current surplus or deficit (–)	56.7	–5.5	–11.1	11.3	19.9	–12.1	
Social insurance funds	1.3	–0.1	0.2	0	0.2	0.3	
Other	55.5	–5.2	–11.4	11.3	19.6	–12.2	

Federal

The Federal Government current surplus increased \$74.1 billion, to \$186.3 billion, in the first quarter after decreasing \$21.6 billion in the fourth. The turnaround was accounted for by a sharp downturn in current expenditures, but an acceleration in current receipts also contributed.

Current receipts.—Federal current receipts increased \$54.5 billion in the first quarter after increasing \$39.2 billion in the fourth. The acceleration was more than accounted for by step-ups in personal tax and nontax receipts and in contributions for social insurance. In contrast, corporate profits tax accruals and indirect business tax and nontax accruals decelerated.

Personal tax and nontax receipts increased \$26.9 billion after increasing \$14.7 billion.

17. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPAs, inventory profits or losses are removed from business incomes by the inventory valuation adjustment (IVA); a negative IVA removes inventory profits, and a positive IVA removes inventory losses.

The capital consumption adjustment converts depreciation valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation valued at replacement cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For more information on depreciation in the NIPAs, see Shelby W. Herman, "Fixed Assets and Consumer Durable Goods: Estimates for 1925–98," *SURVEY OF CURRENT BUSINESS* 80 (April 2000): 17–30.

18. Net saving equals gross saving less consumption of fixed capital (CFC); the estimates of gross saving, CFC, and net saving are shown in NIPA table 5.1. For NIPA estimates of government current receipts, current expenditures, and the current surplus or deficit for 1998 and 1999, see NIPA tables 3.1, 3.2, and 3.3 in this issue. These tables also present "net lending or borrowing," which is conceptually similar to "net financial investment" in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

19. The NIPA estimates for the government sector are based on financial statements for the Federal Government and for State and local governments, but they differ from them in several respects. For the major differences, see NIPA tables 3.18B on page 67 and 3.19 on page 68 of the *April 2000 SURVEY*.

Receipts from income taxes increased \$26.5 billion after increasing \$14.5 billion; the acceleration was more than accounted for by increases in projected levels of "estimated income tax payments and final settlements, less refunds" for 2000. The projected levels for these taxes were revised up on the basis of actual collections data from the *Monthly Treasury Statement* through April and from the *Daily Treasury Statement* through May 17, and projections for the remainder of the calendar year that are based on historical collections patterns; in the advance estimate, the tax estimate was based on projections from the Federal budget.

Contributions for social insurance increased \$13.6 billion after increasing \$6.7 billion. The acceleration primarily reflected an increase in the social security taxable wage base that boosted contributions by employers, employees, and the self-employed to the old-age, survivors, disability, and health insurance trust funds.

Corporate profits tax accruals increased \$11.2 billion after increasing \$14.3 billion. The deceleration reflected a deceleration in domestic corporate profits before tax.

Indirect business tax and nontax accruals increased \$2.7 billion after increasing \$3.5 billion. The deceleration was more than accounted for by customs duties, which decreased \$2.0 billion after increasing \$1.0 billion, and by nontaxes, which were unchanged after increasing \$1.3 billion. In contrast, excise taxes increased \$4.6 billion after increasing \$1.2 billion; within excise taxes, tobacco excise taxes increased \$4.1 billion after increasing \$0.5 billion.

Current expenditures.—Current expenditures decreased \$19.7 billion in the first quarter after increasing \$60.9 billion in the fourth. The downturn was accounted for by downturns in "subsidies less the current surplus of government enterprises," in consumption expenditures, and in grants-in-aid to State and local governments and by a deceleration in "transfer payments (net)." In contrast, "net interest paid" accelerated.

Subsidies less current surplus of government enterprises decreased \$16.5 billion after increasing \$22.8 billion. The downturn was accounted for by agricultural subsidies, which decreased \$16.7 billion after increasing \$22.5 billion; special payments to farmers for drought-related losses were smaller in the first quarter than in the fourth (these payments are provided under the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Act).

Consumption expenditures decreased \$8.5 billion after increasing \$16.9 billion. The downturn was more than accounted for by defense consumption expenditures, which decreased \$15.0 billion after increasing \$13.4 billion; within defense consumption expenditures, services decreased \$16.2 billion after increasing \$14.9 billion. The downturn in services was moderated by an upturn in compensation of employees, which increased \$4.7 billion after decreasing \$0.7 billion; compensation was boosted \$5.2 billion by the January 2000 pay raise.

Nondefense consumption expenditures increased \$6.4 billion after increasing \$3.6 billion. The acceleration was primarily accounted for by services, which increased \$5.7 billion after increasing \$3.2 billion. Within services, compensation of employees increased \$5.2 billion after increasing \$1.3 billion; compensation was boosted \$3.2 billion by the January 2000 pay raise and \$1.2 billion by the addition of more than 84,000 temporary workers for the Bureau of the Census.

"Transfer payments (net)" increased \$3.4 billion after increasing \$15.3 billion. The deceleration was accounted for by transfer payments to the rest of the world, which decreased \$11.0 billion after increasing \$9.2 billion; these payments had been boosted in the fourth quarter by the annual payment of \$2.4 billion (\$9.6 billion at an annual rate) to Israel for economic support and by other payments. In contrast, transfer payments to persons increased \$14.4 billion after increasing \$6.0 billion. The step-up mainly reflected a 2.4-percent cost-of-living adjustment in January that boosted benefits \$10.8 billion for social security (old-age, survivors, disability, and health insurance), veterans pensions, supplemental security income, and other programs.

Grants-in-aid to State and local governments decreased \$1.2 billion after increasing \$5.0 billion. The downturn was mostly attributable to downturns in grants for medicaid and for "welfare and social services."

Net interest paid increased \$3.3 billion after increasing \$0.7 billion. The step-up was accounted for by an acceleration in interest paid by the rest of the world and by decreases in interest paid to persons and business that were smaller in the first quarter than in the fourth.

State and local

The State and local government current surplus decreased \$12.1 billion, to \$56.7 billion, in the first quarter after increasing \$19.9 billion in the fourth. The downturn was mostly accounted for

by a deceleration in current receipts, but an acceleration in current expenditures also contributed.

Current receipts.—State and local government current receipts increased \$9.9 billion after increasing \$37.9 billion. The deceleration was primarily accounted for by a deceleration in indirect business tax and nontax accruals. Personal tax and nontax receipts and corporate profits tax accruals also decelerated, and Federal grants-in-aid turned down.

Indirect business tax and nontax accruals increased \$7.0 billion after increasing \$21.8 billion. The deceleration was accounted for by nontax accruals, which decreased \$4.6 billion after increasing \$11.1 billion. In the fourth quarter, nontax accruals had been boosted \$2.8 billion (\$11.2 billion at an annual rate) by the out-of-court settlement payments to the States by tobacco companies.

Personal tax and nontax receipts increased \$2.0 billion after increasing \$8.7 billion. The decelera-

tion was mostly accounted for by a deceleration in personal income taxes, which increased \$1.3 billion after increasing \$7.9 billion, reflecting the effects of changes in the tax laws and an increase in refunds.

Corporate profits tax accruals increased \$1.8 billion after increasing \$2.1 billion, reflecting the deceleration in domestic corporate profits before tax.

Current expenditures.—Current expenditures increased \$22.0 billion after increasing \$18.0 billion. The acceleration was accounted for by an acceleration in consumption expenditures.

Consumption expenditures increased \$19.8 billion after increasing \$15.9 billion. The acceleration was more than attributable to a step-up in expenditures for nondurable goods, which increased \$8.0 billion after increasing \$3.3 billion, mostly as a result of higher prices for petroleum products. 